

FISCAL NOTE

SB 1767 - HB 1585

March 12, 2007

SUMMARY OF BILL: Enacts an equity assessment equal to 50 cents per pack of cigarettes on cigarette manufacturers not participating in the Tobacco Master Settlement Agreement. Earmarks funds for statewide health programs as may be provided in the general appropriations act.

ESTIMATED FISCAL IMPACT:

Increase State Revenues -

\$24,643,000 / Earmarked for Healthcare programs
\$501,000 / General Fund
\$1,123,000 / Education Fund
\$6,000 / Department of Revenue
\$16,000 / Sinking Fund

Increase State Expenditures - \$78,000 Recurring
\$120,000 One-Time

Increase Local Govt. Revenues - \$621,000

Assumptions:

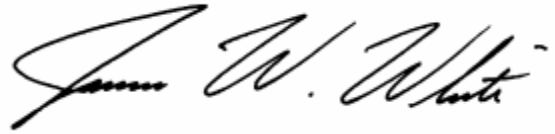
- According to the Department of Revenue (DOR), excise tax collections on cigarettes in FY05-06 were approximately \$115,462,000.
- Current excise tax rate on cigarettes is \$0.20 per pack.
- Estimated number of packs sold in FY05-06 was 577,310,000 ($\$115,462,000 \div \$0.20 = 577,310,000$ packs).
- Based on recent trends, cigarette sales by non-participating manufacturers (NPM) accounts for approximately 9.0% of all sales.
- The number of packs sold by NPM is estimated to be 52,000,000 per year ($577,310,000$ total packs X 9.0% share = $51,957,900$ packs).
- Cigarette elasticity is estimated from a variable elasticity schedule depending upon the extent of any excise tax increase.
- Cigarette elasticity rate for the proposed equity assessment is estimated to be -0.364.
- Current consumer price per pack is estimated to be \$3.49 per pack (including sales tax).

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- Enacting a 50-cent per pack equity assessment will increase the price per pack to the consumer by 14.33% ($\$0.50 \div \$3.49 = 14.33\%$).
- Quantity demanded would decrease by an estimated 5.22% (14.33% price increase X -0.364 elasticity rate = -5.22%).
- Quantity demanded in FY07-08 is estimated to be 49,285,600 packs ($52,000,000 \times \{100.00\% - 5.22\%\} = 49,285,600$).
- Total equity assessments are estimated to be \$24,643,000 in FY07-08 ($49,285,600 \text{ packs} \times \$0.50 \text{ assessment} = \$24,642,800$).
- 100% of the estimated \$24,643,000 would be apportioned exclusively for statewide healthcare programs as may be provided in the general appropriations act.
- Sales tax collections will increase because sales tax will be computed on the final retail sale (which would include any equity assessment).
- Current state sales tax rate on cigarettes is 7.00%.
- The local option sales tax rate is estimated to average 2.25%.
- Enacting a 50-cent equity assessment per pack will increase sales tax per pack (approximately \$0.035 per pack for state; \$0.011 per pack for local governments).
- The increase to state sales tax revenue is estimated to be \$1,725,000 per year ($49,285,600 \text{ packs} \times \$0.035 = \$1,724,996$).
- The \$1,725,000 in incremental state sales tax revenue would be apportioned as follows: \$501,000 to the General Fund, \$1,123,000 to the Education Fund, \$79,000 to local governments, \$6,000 to DOR, and \$16,000 to the Sinking Fund.
- The increase to local option sales tax revenue is estimated to be \$542,000 per year ($49,285,600 \text{ packs} \times \$0.011 = \$542,142$).
- The DOR suggests significant difficulty with the administration of and the enforcement of the provisions of this bill. Nevertheless, the department has indicated it would need two (2) Taxpayer Services Representatives 1 positions.
- The increase to recurring state expenditures for the two new positions is estimated to be \$78,000 per year.
- The increase to one-time state expenditures for computer and software enhancements and expenditures related to the two new positions is estimated to be \$120,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large, stylized "J" and "W".

James W. White, Executive Director